

THE RHODESIAN JOURNAL

of
ECONOMICS

The Quarterly Journal of the Rhodesian Economic Society

Editorial Board:

A. M. Hawkins (Editor), M. S. Brooks, M. L. Rule, P. J. Stanbridge
and P. Staub.

INDUSTRY IN RHODESIA

A TWO-DAY SYMPOSIUM

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PAPER No. 3

M. J. Britten

Mr. Mike Britten is Secretary of the Associated Chambers of Commerce of Rhodesia. He has previously worked in the Ministry of Agriculture and with the Rhodesia National Farmers Union.

THE EFFECTS OF INDUSTRIALISATION ON THE DISTRIBUTIVE TRADE AND THE CONSUMER

M. J. BRITTEN

(i) What is Distribution ?

When one talks about commerce and industry it is usually in terms of completely separate entities. Over a period of time we have come to accept that the two have almost conflicting interests, and this image is reinforced by their representation by separate associations.

In reality nothing could be further from the truth. We define distribution as "the service of making available to users or consumers the goods required by them, at convenient places, at the times when they are required, in acceptable quantities and in the desired range of choice".

It will be apparent from the definition that manufacturing is really just one of the chain of activities labelled "distribution". It performs a function not fundamentally different to that of transport or storage. The chain is an organic whole, interdependent and interwoven in its activities.

Nothing better illustrates the point than the activities of manufacturers themselves. There can be few for whom a major part of their activities are not concerned with the distributive sector, and in many cases, manufacture is only one of the links in a distribution chain, leading from raw materials to retailing, carried out by one company.

I have felt it necessary to dwell on defining distribution in a little detail mainly to indicate to manufacturers that organised commerce feels we are all on the same side of the fence. Criticism must be directed at manufacturers as part of the distributive sector, rather than as a separate industry who must find their own salvation.

It should be noted that industry has, for the purposes of this examination, been taken as synonymous with "manufacturing" as it is this sector which affects distribution and the consumer. The wider connotations of "industrialisation" have been ignored.

(ii) The desirability of industrialisation

In now considering the effects of industrialisation on distribution and the consumer, it would be as well to look at the classical pattern of industrialisation, with particular regard to international trade, and in studying deviations from the optimum to illustrate how the major problems are caused.

Organised commerce is, of course, strongly in favour of industrialisation on an economic basis. The justification for industrialisation is relatively simple; at the beginning of their economic lives most countries, Rhodesia included, depend on trade for all their requirements. At this stage trade is necessary because of the lack of any local production, but even when the first industries begin to appear and for some time after, trade goods are generally better value for money, even with the penalty of transport. Those items enjoying particularly favourable combinations of production factors may establish a comparative advantage and hold their own against imported competition but this is the exception, not the rule.

This is the simple pattern for industrialisation of a developing country on a free trade basis. The specialisation involved in such a trade pattern ensures the most efficient use of production factors and as a consequence the maximisation of the National Income.

(iii) Industrialisation in Rhodesia

In what important ways does the Rhodesian pattern differ from the optimum and what have been the results? Up until 1965 protection to local manufacturers was relatively limited and there was little import substitution. Manufacturers of a number of items penetrated export markets on a substantial scale, but the range of items involved was relatively limited. Rhodesia's more recent history shows that protection has been justified by a mixture of the "infant industry" and the "diversification of industry" arguments, both of which are well known and need no elaboration. I would particularly like to consider in more detail the "import substitution" arguments, as this particular line of thought has, in my opinion, been responsible for most of the mistakes we have made in our industrialisation programme so far.

Import substitution takes place where a manufacturer can produce a product for the local market at a price as low, or reasonably close to the equivalent imported item. There is no suggestion that, even with the home market the manufacturer will hold his own in the export market, and protection is afforded, either in the form of a tariff or by import control.

Such a policy has generally been accompanied as part of an upsurge in economic nationalism, and Rhodesia is no exception. The disadvantages are swept away by a wave of feeling in favour of the increased employment and strategic economic independence thought to stem from large-scale import substitution.

Many countries have fallen into a similar trap and by the number of documented case studies available one would have hoped Rhodesia would have taken a more cautious attitude.

Import substitution was specifically recommended by Professor Sadie in his review of the Rhodesian economy published in 1967. While noting that the policy would cause balance of payments problems, the Professor thought that "quite probably the marginal return per factor of production employed would be lower than if the free market mechanism were to prevail, but it is submitted that the number in actual employment is going to be so much higher that the national product per capita would be greater". Let us hope that the Professor's comments are correct, but this has not been the experience in other developing countries.

To quote from a recent O.E.C.D. publication referring to developing countries:

"Industrialisation policies are largely based on import substitution; high levels of protection, small markets and other factors have raised the general level of costs and impaired quality."

A second quotation comes from a current publication of the International Chambers of Commerce:

"Import substitution is universally recognised as having come a cropper. Most developing countries' internal markets are simply too small to allow operating and manufacturing efficiencies. In consequence, costs and prices of

manufactures in these countries, as well as the quality of production, have made the manufactured goods very difficult to export."

Closer to home, Professor L. H. Samuels in addressing the ACCOR Congress in 1967, commented as follows:

"As a country develops and becomes more differentiated, the production of goods in substitution of imports increasingly benefits from the economies of scale and the competitive handicaps in relation to the advanced countries of the world gradually diminish. This has been the experience of the South African and Rhodesian economies. Unfortunately there is a tendency for policy makers to translate propositions which have an element of validity, into simple slogans and rules of thumb, especially under the stress of a shortage of foreign exchange. The result is that 'import substitution' becomes an objective of development policy for its own sake instead of a means for ensuring an efficient allocation of development resources. Although the local production of 'import substitutes' gives the superficial appearance of development, the cost can be extremely high as measured by the great waste of resources involved."

Most of the problems forecast by the sources quoted above have been experienced by Rhodesia in recent years even if only to a limited degree and have had an effect on the distributive sector varying from serious to relatively minor. We have seen the quality of goods drop, sometimes rising to approximately the quality of the imported article in the long run, but often without even an attempt at competing on a quality basis.

We have also seen the price rises as predicted, on a wide range of items from the smallest household items to consumer durables. When taken together with a drop in quality, the price rise is even more significant.

In addition to the quality and price, the distributive sector has experienced the lack of variety, etc., associated with so small a market.

All this adds up to a number of headaches for the retailer in particular and the distributive sector in general. However, the most serious shortcoming of the import substitution policy is that it is unlikely to improve the foreign exchange position, which was a basic justification for its implementation. Such a situation had been forecast by each of the sources quoted above and there are reasons to believe that the Rhodesian pattern is not dissimilar. It is on this score that the major conflict has so far arisen between the present industrialisation policy and the distributive sector.

The basic issue is thus the feeling by the distributive sector that unnecessary foreign exchange was wasted on pushing a policy of import substitution, which was not only unsound in theory, but which just did not deliver the goods. To make the position worse, the policy created a foreign exchange drain at a time when the distributive sector was already decimated by cuts in import allocations. The result has been the absence of some items, shortages and lack of choice in others, and a serious position for the quality specialist trader.

Before leaving the problems of import substitution, let me make a number of matters clear: Commerce does not question the way in which import substitution has been administered or the evaluation of individual projects, but rather the principle involved. I do not believe that the overall position as related to the economy as a whole has been correctly evaluated and hope that government will re-think the matter.

In summary, I believe that in the circumstances of present economic

conditions, available currency could be better used in developing the agricultural and mining sectors than pursuing a policy of import substitution.

(iv) Trends in Distribution

In sympathy with South Africa and accelerated by the policy of import substitution and import control, distribution has been undergoing a minor revolution, brought about by the changing pattern of manufacturing. The days of the world being the businessman's oyster are over in Rhodesia and the distributive trade is forced to market more and more locally manufactured products.

The most obvious effect of the increased level of manufacturing is the declining dependence of some retailers on the wholesaler. When goods were imported, it was usually a function of the wholesaler, but now the purchase direct from manufacturer has become easier and this is of course encouraged by the manufacturer. Wholesalers continue to provide their vital services, and to some extent, their losses through direct sales have been compensated for by the general growth in the economy. This is clearly indicated by the fact that the latest monthly Bulletin of Statistics shows the index of retail trade turnover at 108.0 and the wholesale trade turnover at 122.1, both on base year 1965. The wholesaler is still a vital link for the smaller retailers, who continue to flourish despite the greater prominence of the departmental stores.

All in all, however, the trend continues to be towards increased direct selling and it is unlikely that with the weapons at the manufacturers' command, the wholesaler will be able, or will even attempt to reverse the trend. These weapons of product differentiation by branding and advertising, retail price maintenance, etc., will be considered in more detail later.

If Government has the courage to liberalise its trade policy when circumstances allow, Rhodesia will gain not only the variety of price and quality so lacking at present, but the vital competitive element must be re-introduced. For many this may hold no fears, but for some, it will be a day of reckoning.

(v) The Consumer

The most important single point over which Government and commerce disagree is on the importance of the consumer. We have always maintained that "the consumer is king", but Government in its wisdom is prepared to sacrifice the consumer on the altar of a supposedly increased growth rate with import substitution the sacrificial sword. This does not imply that all local goods are poor in quality, high in price or lacking in variety. We feel, however, that Government has been slow to safeguard the consumer in cases where policy decisions for import substitution were taken. It would not be unfair to say that to some manufacturers, the approval by Government of a project for local manufacture is tantamount to winning the Rhodesian sweep. Once the go-ahead has been given there follows an extended period of broken delivery dates, erratic quality, etc. It may shock you to know that some manufacturers are up to two years behind in their deliveries.

Many organisations consider a watchdog is necessary to look after consumers' interests. The Women's Institute and the Salisbury Producer Council perform sterling work in this respect but can hardly be expected to out-manoeuvre the manufacturer in his own field. To date the Standards Association of Central Africa has been virtually by-passed and the potential it holds to act

as a watchdog has, perhaps intentionally, been disregarded by Government. One could expect that in approving a new project the Minister of Commerce and Industry would make it a prerequisite for a standards mark to be obtained either prior to full-scale production or in the shortest possible time thereafter. It has been my own experience that the Ministry is unwilling to take this simple step to safeguard the public.

It must be assumed that any reputable manufacturer would automatically want his products to bear the standards sign and to those manufacturers who have taken advantage of this facility we owe a special debt; not only are they pioneering a pattern which we hope will become universal but they are financially supporting an organisation which we feel to be vital to the long-term interests of both the manufacturer and the consumer.

There has recently been renewed pressure for Government to impose price control. This has no doubt arisen partially from the feeling that some manufacturers and retailers are profiteering and that in many cases the shortage of goods allows manipulation of the price to an extent that no longer indicates a healthy position. I should make it quite clear that organised commerce always has been and still is, strongly against price control. The small number of manufacturers and retailers who stoop to such unorthodox methods of retailing as for instance the sale of seconds or damaged goods at normal prices upsets the confidence of the public and they are entitled to call for some added safeguards. The solution, I need not reiterate, is competition allied to a sense of responsibility which will no doubt arise when the industry has become more mature.

In talking about pricing and price control, I think it is relevant to mention retail price maintenance. There has been a general trend throughout the world to legislate against this practice and we feel that Rhodesia should be no exception. In extensive economies retailers can resort to purchasing from an alternative source if a manufacturer tries to enforce a policy of retail price maintenance. In Rhodesia, however, the sources of supply are so limited that such a policy could easily be enforced with little chance of it being broken. The problem does not yet appear to have assumed large proportions but I would indicate to manufacturers that this angle is being watched closely by consumer organisations and at the first signs of abuse Government will be requested to take remedial action.

One must have some sympathy for local manufacturers in facing a market as small as is the Rhodesian market with, in many cases, little hope of major exports. There is limited scope for internal economies of scale and external economies have not yet developed to the point where they have become significant. Nevertheless I would strongly urge manufacturers to improve the many techniques they require in building up a strong manufacturing sector and I would like to mention briefly a number of directions to which we feel insufficient attention has been given by many manufacturers.

Basic to the whole process is product branding, entailing as it does advertising, packaging and other promotional activities. It is strange that even after a number of years of very short supply most foreign goods still retain a stronger brand image than any local brand names. Whether or not the local manufacturer feels himself unqualified to undertake major promotions or whether he feels it unnecessary is not certain but the result has been a reluctance to become involved in branding of Rhodesian goods. The exceptions are those Rhodesian

manufacturers who have used international or South African brand names under licence. It is always an indication of an industrialist's confidence in his product that he is prepared to outlay considerable finance in its promotion knowing that no amount of advertising will sell a poor product. I would like to suggest, as have many experts in this field, that if the day of easing import control is not to become a day of reckoning, local manufacturers must begin to think more positively in terms of product branding.

Market research is another aspect which has received scant attention locally, although we have a number of practitioners capable of providing this service. Few manufacturers have bothered to make the effort involved to ensure whom they are selling to and exactly what is required. The closed economy has unfortunately promoted a slap-dash attitude whereby the consumer is expected to buy whatever the manufacturer cares to make.

Again I can only stress that this sort of attitude must produce a day of reckoning and would emphasize that it is not only the small manufacturer who is at fault.

In many cases the promotion functions normally considered as part of the sphere of the manufacturer have in Rhodesia been taken over by the wholesaler and retailer. This applies to all the items we have mentioned above but surprisingly also to penetration of export markets. We have accepted that an import substitution industry cannot also be considered competitive for exports but in many cases the distributor has shown the way to the manufacturer in exporting those of our manufactures which are competitive.

The disinterest shown by manufacturers in promotion is amply illustrated by the experience of Trade Fair Rhodesia, not only did large numbers not even bother to exhibit, but those who did, in many cases left their stands completely unattended for the duration of the show.

This paper has perhaps tended to harp on that minority of manufacturers who have taken advantage of present circumstances, and does not give sufficient credit where undoubtedly credit is due. It would have failed in its object, however, if it did not point out the very real shortcomings of present industrialisation policies.

DISCUSSION OF PAPER THREE

Mr. Dewhurst said it was a "masterly understatement" to describe *Mr. Britten's* paper as "a little bit destructive". He admitted that he may have missed it, but he failed to find a single constructive point. *Mr. Britten* had made some very sweeping statements but unfortunately had not backed them up with facts. *Mr. Britten* had inferred that the lack of quality and poor deliveries were widespread. No-one would deny that this had happened nor that it would be bound to happen in a situation where industry had been forced to produce something new almost overnight. As the Minister had said industrial development had taken place in three years which would normally take place in ten. He thought it was most unfair and quite untrue to say that the defects mentioned represented a general pattern. If *Mr. Britten's* impression were true then customers would be continually complaining about the quality of locally-manufactured items. *Mr. Dewhurst* asked how many customers did—in fact—go back to the retailer and complain about shoddy goods. *Mr. Dewhurst* said he thought that *Mr. Britten* working for the Associated Chambers of Commerce only heard complaints. Members would not report when they were pleased with locally-made products. *Mr. Dewhurst* said it was not true to suggest that import substitution had failed to work. It was also untrue to say that the Standards Association had been largely by-passed. In fact the Association had expanded its work very considerably in the last 3½ years. One reason why new certificates had not been issued by the Association was the fact that it simply did not have the staff to cope with the demands upon it.

Mr. Britten replied that in talking to retailers he had found that delivery in particular—but also quality—had not yet reached the stage where it was satisfactory. He could only say that if the people who were selling the goods felt this way then there must be something behind it. Referring to import substitution, *Mr. Britten* said there were several items where the cost had risen several hundred per cent after local production started. *Mr. Britten* denied that he said that the Standards Association was not doing a first class job. His point was that Government had failed to insist that a Standards Association mark be secured by new producers. This was an effective safeguard for the consumer, he added. He thought it would be a good idea if Government committed itself along the lines suggested in his paper.

Mr. Hamlin, supporting *Mr. Dewhurst's* criticism, made two points. He said that organised industry had tried to co-operate with commerce ever since controls were imposed at the time of UDI, asking that complaints be passed to industry to investigate. As far as he was aware not a single complaint had reached the Association of Rhodesian Industries. Secondly, all manufacturers were not necessarily members of organised industry. A lot of "back-yard operators" had grown up and these were the reason for many of the complaints. *Mr. Hamlin* suggested that commerce became a little more selective in its buying policies. Commerce should not only see that suppliers had the Standards mark but that they were also members of organised industry.

Mr. Britten said he did not think any comment was necessary on *Mr. Hamlin's* contribution.

Mr. Peter Staub said he hoped that *Mr. Britten's* views were not the considered views of organised commerce in Rhodesia. *Mr. Staub* said that there was no such thing as import substitution. To call industrial development in Rhodesia import substitution was quite incorrect. He said that many of the price rises in Rhodesia represented imported inflation rather than higher prices being charged by domestic manufacturers. Referring to *Mr. Britten's* comments on free trade, *Mr. Staub* said that it was true to say that the case against free trade had never been proved, but that free trade had never been practised either. If the United States were prepared to abolish all import restrictions then perhaps Rhodesia could afford to do so too. Growing industry had to be protected against export subsidies used by other countries, and also against dumping. On labour costs, *Mr. Staub* asked if *Mr. Britten* supported the introduction into Rhodesia of lower wages and lower labour conditions generally. The distributive trade throughout the world was undergoing a revolution. This naturally tended to disturb the pattern of the wholesale and retail trade. These developments were taking place all over the world and it was unfair to try and use them as a weapon against Rhodesian industry.

Mr. Staub admitted that some luxury and specialist traders were facing severe difficulties, but it should not be forgotten that this was the result of a political decision and not of a policy of economic development.

Mr. Britten said that at no time had he suggested that Rhodesia should practise free trade. What he had done was to put up the free trade model in order to illustrate how changes from free trade had affected Rhodesia. On importing products from cheap labour countries, Mr. Britten referred to the comparative cost theory to support his earlier contention. On the changing pattern of the distributive trade, Mr. Britten said that while he agreed with Mr. Staub's comments about developments in other countries, the fact was that in Rhodesia this state of affairs had been brought about by a lack of alternatives. In normal circumstances where a manufacturer sold direct to the consumer, he would find retailers going to other manufacturers who were not prepared to adopt this procedure. But in Rhodesia import and other controls often meant that such a policy could not be adopted because there was only one supplier. Mr. Staub could not possibly claim that the normal revolution was taking place in the normal way.

Mr. Stanbridge said his impression was that while Mr. Britten did not advocate free trade for Rhodesia alone, he did advocate it on a world-wide basis. Taking a very long-term view, Mr. Stanbridge thought that everyone would agree with Mr. Britten but the industrialisation of countries like the U.S. and Germany had taken place behind tariff walls and he did not think that anyone would argue that these countries were less efficient now than Britain. Mr. Stanbridge thought that Mr. Britten had overlooked an important point in that the real meat of the distribution industry was the consumer.

Mr. Stanbridge argued that if you had free trade and no industrialisation—or limited industrialisation—as a result of that free trade and as a result of international specialisation, you are very limited in the size of the population you can develop in a country. Had a country like Australia remained purely agricultural, the total population it could support would have been very limited. It was only through industrialisation that job opportunities could be created for a far larger population. It was also true to say that the multiplier effect on incomes was much greater in the industrial than in the agricultural sector. In the long term, therefore, it was surely in the interests of the distributive trade to promote industrialisation.

Mr. Darrol asked about countries where import substitution had been a failure and also what had happened once countries had dropped the import substitution policy in preference for developing other sectors. Had this transformed the economy?

Mr. Britten replied that an import substitution industry usually failed to substitute 100 per cent. It still required to import an important proportion of its inputs. Whereas the same capital investment in agriculture had a lower import coefficient. The other reason for the failure of import substitution programmes was that the linkage effects plus the import substitution industry itself all required greater amounts of foreign currency.

Mr. Britten said he could not think of a country which had stopped import substitution and reverted to favouring export sectors.

In summing up, Dr. Ngcobo said he thought it was a pity that the free trade issue had been introduced because this was something of a red herring under existing circumstances. He welcomed Mr. Britten's comments on import substitution because he thought it provided a corrective to the ideas expressed in the two earlier papers. Mr. Britten had put his finger on the important issue in showing that too many developing countries tended to elevate import substitution into an economic policy justifiable on its own merits instead of following a policy based on the most efficient use of scarce resources. Dr. Ngcobo agreed with remarks from the floor that poor quality products and late deliveries were not universal pointing out that the consumer price index failed to take into account the quality of products. He said he was surprised that commerce was against price control because he thought that this was a justifiable policy under present conditions. He said he was not satisfied that the techniques of market research had, in fact, been mastered in Rhodesia adding that he would like to see more attention devoted to this.



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